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The Gang That Couldn't Talk Straight Rides Again

White House Contradicts its Own Estimates of Kyoto Treaty's Costs

The gang that couldn't talk straight rides again. This time, the glaring contradiction is between the Clinton Administration's own internal energy estimates and its latest statement on the costs of implementing the Kyoto climate-change protocol. Negotiated by the Administration last December, the Kyoto agreement will impose on all its participating nations a mandatory reduction in so-called greenhouse gas (GHG) emissions to a level 7 percent below each nation's 1990 level — a reduction level that must be met between 2008 and 2012. The President has hinted he will sign the treaty — in clear defiance of the Senate's wishes (as stated in the Byrd-Hagel resolution, which passed 95-0 last year).

Senators Hagel and Byrd both have urged the President not to sign the protocol, noting among its key flaws its complete exemption of developing nations from its strictures. As such, the Kyoto accord severely limits the most cost-effective reduction methods — such as emissions trading — for the United States. Furthermore, the protocol imposes even greater costs than were anticipated prior to negotiations: instead of the Administration's stated goal of reducing emissions to 1990 levels, the U. S. negotiators accepted a draconian reduction of 7 percent below this level. And these flaws do not address the questionable science upon which the entire issue rests [see also, RPC's " Kyoto Protocol: Bad Policy Based on Bad Science," 4/21/98]. In short, the Administration has chosen a draconian goal and is committing the U.S. to take the hardest route to achieve it while simultaneously exempting developing nations from it — all on the premise of an issue built upon a questionable scientific foundation.

As disconcerting as all that is, what is most suspect about the Administration's shoot-from-the-lip environmental policy on the Kyoto protocol is its own cost discrepancies. These discrepancies raise profoundly serious questions about the evaluation process the Administration is following as it attempts to commit the United States to what would likely be its most expensive international obligation since World War II.

President's Economic Adviser Claims Small Economic Impact

Janet Yellen, chairwoman of the President's Council of Economic Advisers (CEA), gave the latest Administration statement on Kyoto's impact to the U.S. economy. Testifying before the House Commerce committee on March 4, 1998, Yellen conceded the Administration's analytical methodology was questionable:

"The costs of unabated climate change may thus be difficult to quantify, but they are nonetheless real and provide the motivation for reducing greenhouse gas emissions. . . . First are the uncertainties that still remain over the terms of the ultimate protocol, necessitating assumptions on which the analysis is predicated. Second are the inherent limitations of available models to analyze even short-term costs and benefits. And finally is a topic discussed earlier: the impossibility of putting a single monetary number on the long-term benefits of climate change mitigation, although there will clearly be economic benefits of emission reductions."

Beyond-the-Best-Case Scenario

These difficulties did not prevent Yellen from using a wildly optimistic beyond-the-best-case scenario: ". . .assuming those reductions are undertaken in an efficient manner and we are successful in securing meaningful developing country participation as well as effective international trading, and the Clean Development Mechanism in future negotiations." Yet, none of these assumptions can legitimately be anticipated. The Kyoto protocol is riddled with gaps, the first being that most developing nations will not participate. The second gap has to do with emissions trading, which at present it is merely a concept in the Kyoto protocol. While Yellen said that there would be "unlimited" credits for trading, now the Administration appears to be talking about limiting the amount of credits and the duration of trading. Another gap has to with the Clean Development Mechanism (CDM), again only a concept in the protocol. No one knows how it will work, how much it will cost to run, or what enforcement powers it will have.

Thus, Yellen's assumptions are flawed by the facts that:

- There is very little chance that developing nations will be motivated to submit to mandatory reductions. China, for example, has already said that it will not — and China is likely to be the single largest emitter of greenhouse gases.

- There is no evidence that any successful emissions trading program has even been considered by the Intergovernmental Panel on Climate Change, and so no credible assumptions can be made about how or whether it will work. Further, it is unreasonable to expect that such a program will be in place by the time the next conference of the parties takes place in November to consider such matters. Finally, trading is limited to those countries that sign the protocol, and the protocol cannot be changed.

- The Clean Development Mechanism is only a concept. It is a body that will be created at some point down the road, with a composition and powers all still unknown.

These unrealistic assumptions allowed Yellen to give the lowest estimate of the Kyoto agreement's costs ever released:

"Our overall assessment is that the economic cost to the United States in aggregate and to typical households of attaining the targets and timetables specified in the Kyoto Protocol, will be modest.... An emissions price in the range of $14 to $23 per ton of carbon equivalent. This translates into an increase in energy prices between 2008 and 2012 at the household level of between 3 and 5 percent . . . gasoline prices of 3 to 4 percent (or around **4 to 6 cents per gallon**), [raising] the average household's energy bill in ten years by between $70 and $110 per year."

Adviser's Estimate Contradicts Other Administration Estimates

Meanwhile, the Administration is known to have done three recent studies — themselves very optimistic — of the economic costs arising from lowering greenhouse gas emissions to the 1990 level (recall the agreement calls for 7 percent below this):

1) Interagency Analytical Team (IAT) estimate done in June, 1997 — The per-metric-ton carbon reduction permit would need to be $100 per metric ton: gasoline would increase **26 cents per gallon.**

2) Department of Energy (DOE) estimate done by five of its laboratories ("the Five Lab Study") in September, 1997 — Assuming "directed programs and policies to expand adoption of energy-efficiency and low-carbon technologies" and "an aggressive program of targeted research and development" the per-metric-ton carbon reduction permit would need to be $25 or $50 per metric ton: gasoline would increase up to **13 cents per gallon.**

3) Energy Information Administration (EIA) of DOE conducted in October, 1997 — The carbon reduction permit would need to be $130-$150 (in 1995 dollars) per metric ton: gasoline would increase **39 cents per gallon.**

All three of these studies were conducted by the Administration within the last year. In contrast to the President's economic adviser's statement, all three provide a detailed list of assumptions and calculations on which their estimates are based. In contrast to Yellen's statement, all three of the other studies assume less emissions reduction — only to 1990 levels, not 7 percent below it. And all three assume anywhere from double (the Five Lab study) to nine times (EIA study) the cost cited by Yellen.

Economic Adviser's Estimate Far Afield From Credible Private Estimates

As far as Yellen's estimates are from the Administration's own estimates, they are even more distant from those of credible outside estimators. Charles River and Associates (CRA), using a state-of-the-art dynamic general equilibrium model of the world economy (known as the CRA Multi-Region Trade Model) estimates implementing Kyoto without emissions trading (as according to the Kyoto agreement signed last December by the Administration) that the carbon reduction permit would need to be $275 per metric ton — gasoline would increase **75 cents per gallon** — in order to reach an emissions target 7 percent below 1990 levels.

Wharton Econometric Forecasting Associates, Inc. (WEFA), a prestigious economic forecasting firm with one of the most widely accepted and respected economic models, estimates that the carbon reduction permit would need to be $265 per metric ton — gasoline would increase **65 cents per gallon** — in order to reach an emissions target 7 percent below 1990 levels. WEFA goes on to estimate that total U.S. GDP would fall over 3 percent below baseline projections, cost the average family $2,700 per year, and cost 2.5 million jobs — a far cry from the "modest" compliance costs Yellen estimates.

More Questions Than Answers

CEA chairwoman Janet Yellen's assessment of "modest" economic cost consequences arising from U.S. compliance with the Kyoto agreement produces more questions than answers. It is based on faulty assumptions, and as such is a scenario that is beyond the best-case. Yet Yellen was able to claim compliance costs that were anywhere from half to nine times less than a group of three more detailed Administration studies — analyses that assumed reductions only to 1990 emissions levels and not 7 percent below these as the Kyoto protocol does.

Yellen's statement came just four months after the most recent Administration study conducted by DOE's EIA. The EIA study had the highest cost estimate of any of the three Administration studies — $130-$150 per metric ton costs versus just $14-$23 per metric ton in Yellen's estimate. This raises very serious questions: What dramatic new evidence had the Administration uncovered in just four months that would allow for such an enormous revision in its own estimates? What economic analysis, if any, is the Administration using in committing the United States to the Kyoto protocol? And, why, when the Administration has requested $6.3 billion in new programs in the President's latest budget which are explicitly attached to implementing the Kyoto protocol, can it not tell the American people and Congress a consistent story as to its cost?

The Administration's latest attempt to "sell" the Kyoto protocol to the American people raises profoundly disturbing questions as to what analytical process they are following in committing America and our prosperity to the most costly and comprehensive international commitment since World War II. (America's most expensive post-WWII conflict was Vietnam at $481 billion in constant FY95 dollars.) Calculating from the October 1997 EIA study, Kyoto implementation would cost roughly $600 billion in net present value loss to the U.S. economy. Talk is cheap for this administration, however, implementation of this protocol would not be.

> "The proposed Kyoto treaty is like a card game where the deck is stacked. American workers are being dealt a losing hand through the negotiating process. In the end, there will be no real environmental benefit and America's working families will be forced to pay higher energy and consumer costs while we export U.S. jobs to countries that are exempted from action under the Treaty."
> [Stephen L. Miller, President of the Center for Energy and Economic Development]

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